

Export growth reduced the deficit of the current account of the balance of payments

The deficit of the current account of the balance of payments for 9 months decreased by 40.9% as compared to the same period of the last year and amounted to (-)3.0 billion USD. This is mainly due to a significant increase in exports. Meruyert Almagambetova, Head of the External Sector Analysis Division of the Balance of Payments Department, talked about market trends and the importance of economic diversification.

– What is the main reason behind export growth?

– The increase in exports since the beginning of this year (+20.4% as compared to 9 months of 2020) was due to the growth of world prices for fuel and energy commodities amid recovery of production in the world after the 2020 pandemic.

Kazakhstan exported large volumes of oil, copper, ferroalloys, flat-rolled iron, iron and copper ores and concentrates, wheat, oil products, aluminum, silver and zinc.

At the same time, export growth was held back by certain commodities. These are uranium (down 36.9% to 0.8 billion USD), gas (-20% to 1.6 billion USD), ores and precious metal concentrates (-9% to 0.5 billion USD).

In general, low diversification makes exports vulnerable to shocks in the world commodity markets: the share of oil in exports is 51.5%, metals – 19.1%, gas – 3.6%, uranium – 1.9%.

– What are the trends in oil exports? Which countries buy the most oil from Kazakhstan?

– Despite the country's obligations under the OPEC+ agreement and reduction in volume, the growth of global oil prices provided for an increase in exports of oil and gas condensate (+19% as compared to 9 months of 2020). However, it should be noted that due to the properties of accounting in the official statistics, the continuing growth of oil prices in Q3 will be fully reflected only in Q4.

The largest buyers of Kazakhstani oil are Italy (6 billion USD), the Netherlands (2.8 billion USD), France (1.7 billion USD), India (1.3 billion USD) and China (1.2 billion USD).

The key oil-buying country is still Italy, which accounts for 27% of all oil exports. At the same time among other countries the shares of the Netherlands (up to 12.6%), France (up to 7.7%), Turkey (up to 5.3%), Singapore (up to 2.8%) and Brunei (up to 2.3%) are increasing.

– What is the situation with export of metals?

– As global demand recovered, in January-September this year exports of ferrous and nonferrous metals grew by 54% and 33%, respectively, compared to the previous year, as well as by 35% and 27%, respectively, compared to the pre-crisis 2019.

The largest increase was reported in copper deliveries to China and the UAE, iron flat products to Russia, ferroalloys to China, the United States and Japan,

aluminum to Turkey and Croatia, silver to Great Britain, zinc to China and Russia. Exports of these commodity items also increased in relation to 2019.

The main buyer of non-ferrous metals is China and ferrous metals is Russia. It is noteworthy that at the same time there is a significant increase in other exports as well due to the growth in sales of iron ores and concentrates, sulfur, copper ores and concentrates.

– Why did export of uranium and gas fall?

– The decline in overseas uranium and gas sales had a dampening effect on export of goods.

Exports of uranium for 9 months of 2021 decreased by 37%. I should point out, that Kazakhstan has been the largest producer of uranium in the last decade. A significant drop was due to the fall in supplies of the radioactive element to China (-443 million USD), India (-74 million USD), France (-11 million USD) and Canada (-6 million USD).

As a result, Russia has now become the key buyer of Kazakhstan's uranium (+23.8 million USD), whose share in uranium exports increased from 21% to 37%.

Growth of domestic gas consumption in the country is one of the reasons for reduction of export volumes. Supplies to China, as well as to such countries as Switzerland, Ukraine, Afghanistan and Germany, fell particularly sharply.

– How is it possible to mitigate exposure of exports to shocks in the global commodity markets?

– First and foremost, through export diversification.

The current situation with high concentration of exports on mineral commodities is also related to the allocation of 56% of all foreign investment to the mining industry, of which more than 90% of investment is in crude oil activities and 7% in metal ore mining.

As a result, the share of manufacturing in GDP is growing slowly, while the share of mining is by far the largest.

All indications are that Kazakhstan's economy remains vulnerable to external shocks, in particular to the situation on the world energy market. This poses long-term threats to macroeconomic stability.

Trends in transition to alternative energy sources are observed all over the world. The EU countries, the main buyers of our oil, have developed the Green Deal climate protection program, under which a tax on the import of goods with a high carbon footprint is planned to be introduced from 2026. For Kazakhstan, this carries a risk of decreasing exports and, as a consequence, of increasing macroeconomic imbalances. Therefore, diversification of the economy is necessary and important to improve the country's resilience to external shocks.

– What measures are being taken to diversify the economy and exports, and why is it important for effective implementation of the monetary policy?

– The Government is carrying out some work in this regard: the current systems of support and diversification of the economy are being reformed, state programs, roadmaps and sectoral national projects are being developed.

The main goals are to double non-commodity exports to 41 billion USD, increase investment in fixed capital to 30% of GDP, increase production in the manufacturing industry by 1.5 times, ensure exporters' access to foreign markets and international electronic platforms.

Achieving these goals is important not only in terms of diversifying the economy and its further development, but also in terms of conducting an effective monetary policy. The monetary policy strategy that ensures achieving and maintaining inflation at a low level in the medium and long term relies on the plans of the Government to diversify the economy and work to build up non-commodity exports, which, in turn, should ensure the inflow of the currency revenues from exports into the country.

– How do the measures of the Government to diversify the economy impact the balance of payments?

– At present, the impact of the governmental measures on export diversification and import substitution on the current account of the balance of payments is assessed as neutral.

On the one hand, the implementation of state programs leads to the expansion of the range of products produced in the country, which either replaces imported goods or leads to an increase in exports.

On the other hand, the expansion of production requires substantial investments in equipment and technology, which, in the absence of domestic production of these types of goods, leads to their import.

Meanwhile, there are positive shifts as well. The share of so called "finished goods", i.e. products with higher value added, in exports has increased from **3.7% in 2011 to 8.2% in 2020**.

This year, according to the Bureau of National Statistics, 3.5 billion USD worth of finished goods have been shipped abroad (+25% compared to 9 months of 2020). These include flour (266 million USD), cars (127 million USD), sunflower oil (84 million USD), fertilizer (83 million USD), cement (71 million USD), batteries (64 million USD), pasta (46 million USD), drugs (45 million USD), cigarettes (40 million USD) and others.

– Why do not growing exports support tenge appreciation?

– Because the growth of export currency earnings does not always lead to an increase in the supply of currency on the domestic foreign exchange market. This is explained by the fact that large oil and gas fields are developed jointly with foreign investors on the basis of production sharing agreements. The volume of foreign currency receipts on the domestic foreign exchange market depends on the terms of these agreements.

According to the agreements, foreign currency revenues from exports first go to cover the costs to develop the fields incurred by investors, and then, the remaining part of the profit is distributed among the participants of the projects according to their share of participation.